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China - Peoples Republic of

Cotton and Products Update

MY15/16 Cotton Imports Expected to Plummet

Approved By:

Jennifer Clever

Prepared By:

Jennifer Clever and WU

Xinping

Report Highlights:

MY15/16 cotton production is forecast down to 5.5 million tons. This forecast is based on 19 percent fall in planted area in response to the lower government's price support for cotton planting. Although the forecast for MY15/16 cotton use is up slightly to 7.5 million tons, cotton imports are forecast to plummet to 1.25 million tons in MY15/16 from the 1.8 million tons in the previous year. This is mainly due to the limited issuance of additional import quotas driving the Chinese industry to use imported cotton yarn.

Executive Summary:

MY15/16 cotton production is forecast down to 5.5 million tons. This forecast is based on 19 percent fall in planted area in response to the lower government's price support for cotton planting. Although the forecast for MY15/16 cotton use is up slightly to 7.5 million tons, cotton imports are forecast to plummet to 1.25 million tons in MY15/16 from the 1.8 million tons in the previous year. This is mainly due to the limited issuance of additional import quotas driving the Chinese industry to use imported cotton yarn.

Purchase rate of cotton reserve sales unexpectedly low

In an effort to reduce the state high cotton reserves and satisfy the textile sector's demand, on July 10, 2015, the government enforced a cotton rotation plan by auctioning cotton reserves at a "market-oriented floor price." However, the expected purchase volume at the auction was much lower than expected mainly due to spinning sector's weaker demand for cotton. The sector's concern regarding high imports of cotton yarn, the lower priced cotton substitutes such as polyester fiber, and the quality of the cotton reserves further discouraged purchases.

As of August 31, the government offered a total 1.85 million tons cotton reserves in open auctions (see table below). Total purchased quantity remained low at 63,413 tons, accounting for merely 3.4 percent. Of the total volume purchased 52,695 tons were from the MY11/12 crop, 988 tons were from the MY12/13 crop, and 9,730 tons were imported cotton. The selling price generally reflects the August 31 rotating floor price with an average price of RMB15,520/ton (\$2,425) for imported cotton and RMB13,311/ton (\$2,080) for MY11/12 domestic crop. The relatively high floor price for the MY12/13 crop contributed to the low purchase rate. As scheduled, the auction would not impact the marketing of MY15/16 domestic crop. Thus, cotton reserve sales ended on August 31.

2015 Cotton Reserve Sales Statistics (in tons; Price: RMB converted to Grade 328B)

	Planned volume	Floor price	Cumulative volume auctioned	Purchased volume	Average purchase price on Aug 31
MY11/12 domestic crop	330,000	13,200	687,037	52,695	13,311
MY12/13 domestic crop	470,000	14,200	474,688	988	14,220
MY12/13 imported	200,000	15,500	693,018	9,730	15,520
Total			1,854,743	63,413	

Source: cottonchina.org; Exchange rate: \$1= RMB6.4 in July 2015

As previously reported, the government did not make adjustments to the floor price during the current rotation period despite the constant low purchase rate. However, the low purchase rate will have an impact on the price for the next round of auctions. Contrary to the previous expected high demand for imported cotton, the purchase rate of imported cotton was also extremely low at 1.4 percent. This reflected low price competitiveness compared to imported cotton yarn.

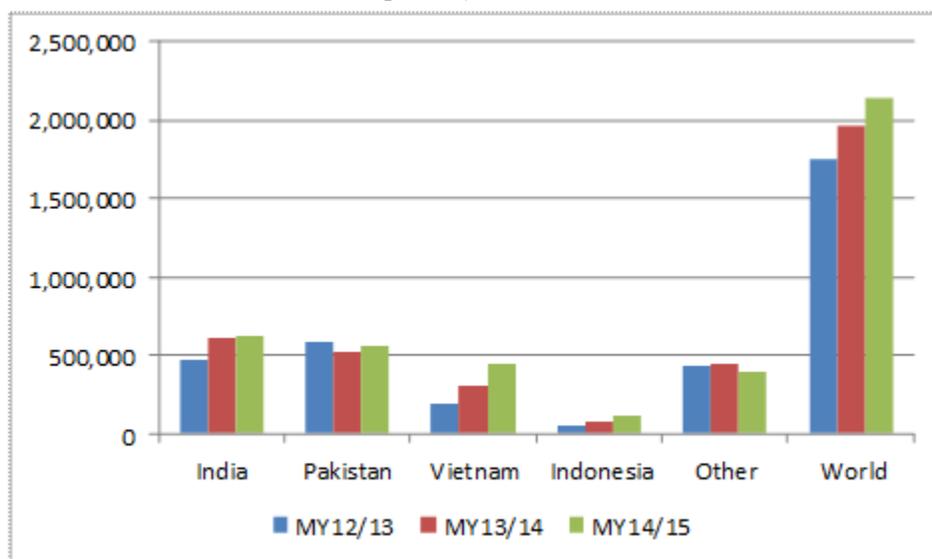
MY15/16 cotton consumption forecast at 7.5 million tons

MY15/16 China's cotton consumption is forecast at 7.5 million tons, up slightly from the 7.4 million tons in MY14/15. This forecast is based on an estimated weak recovery of the textile and apparel products both at home and abroad, coupled with expected higher imports of yarn. China's estimated GDP growth and normal increase of population are expected to support moderate growth in cotton consumption.

Leading Chinese industry sources' forecast for MY15/16 cotton use ranges from 7.35 to 7.68 million tons. However, these estimates are moderately higher than their respective estimate for MY14/15. China's constantly high cotton price has significantly reduced its spinning competitiveness and has added costs to its textile and apparel production intended for export. Textile and apparel exports continued to slip for five consecutive months. In July, total export value was down 10.2 percent over the previous year. Total textile and apparel exports stood at \$128.4 billion in the first half of 2015, down 3.1 percent over the previous year. That said, the recent depreciation of Chinese currency is expected to facilitate exports in MY15/16.

Cotton yarn imports remained strong in MY14/15 at 2.15 million tons, up from the 1.97 million tons in MY13/14. Given that the government has no intention to issue additional import quotas (outside of the WTO quotas and subject to a sliding duty); industry sources estimate the imported cotton price remains RMB900/ton higher than the domestic market price if the full sliding duty is paid. China's industry may continue to favor the use of more imported yarn in MY15/16 instead of using imported cotton to spin yarn. Additionally, the current low price for crude oil will continue to support the use of polyester fiber in yarn production and restrict growth in the use of cotton.

China's Cotton Yarn Imports (MY12/14 to MY14/15; in Tons)



Source: Global Trade Atlas

MY15/16 cotton imports expected to fall to 1.25 million tons

Based on a tight import quota, together with an estimated weak recovery in cotton use, MY15/16 cotton imports are forecast to plummet to 1.25 million tons. This forecast is significantly lower than the 1.8 million tons in MY13/14, and the 3.07 million tons in MY14/15. Industry observers indicate that in the near future, the government is unlikely to add any sort of import quota and imports of cotton yarn are expected to remain strong and satisfy China's yarn use. The current devaluation of Chinese currency is expected to cast a shadow on imports in general but its impact on cotton and yarn imports remains difficult to quantify at this time. Forecast MY15/16 cotton imports by China's industry sources vary and range from 1.38 to 1.78 million tons.

MY15/16 imports from the United States are forecast down from the 587,000 tons in MY14/15. However, its share is likely to increase given that the Chinese industry favors the quality/grade of U.S. cotton.

China Imports of Cotton (MY12/13 to MY14/15, in tons)

Partner Country	Quantity			Share %	Change %
	MY12/13	MY13/14	MY14/15	MY14/15	MY14/15 vs MY13/14
United States	1,298,051	638,621	587,048	32	- 8
Australia	886,624	677,112	365,742	20	- 46
India	986,887	1,097,372	285,603	16	- 74
Uzbekistan	323,334	161,403	192,567	11	19
Brazil	322,705	91,395	187,060	10	104
Cameroon	56,266	55,217	30,406		- 45
Burkina Faso	76,891	79,905	26,993		- 66
Mexico	51,263	27,462	17,103		- 38
Cote d Ivoire	28,438	25,953	14,484		- 44
Zimbabwe	35,420	12,516	14,076		12
Others	359,902	208,153	84,336		
World	4,425,781	3,075,109	1,805,418		- 41

Source: Global Trade Atlas

MY15/16 domestic cotton production forecast at 5.5 million tons

MY15/16 cotton production is forecast down to 5.5 million tons as a result of a 19 percent fall in planted the cotton planted area. This fall in planting area is in response to the government's support policy change which lowered subsidies to farmers in the Yangtze River and the Yellow River regions. Although the government support policy for Xinjiang remains similar to last year's, MY15/16 cotton planted are in Xinjiang is forecast to be lower than previously estimated.

Xinjiang cotton industry leader's estimated total MY15/16 cotton planted area (including Xinjiang's Production and Construction Corporation-the PCC) fell 9.5 percent to 2.2 million hectares, a net decrease of 320,000 hectares compared to the previous year. Grain and cash crops are now reportedly planted in this area. The PCC said it enforced its crop mix adjustment plan in MY15/16 reducing cotton area by 90,000 hectares (most of this area is regarded as land not suitable for cotton or of low-yield). In Xinjiang, despite reports on the above-average July temperatures impacting cotton in some regions,

cotton growth is rated as better than that in recent years. Thus, yield is expected to be higher than the previous year and harvest is likely to be 10 to 15 days earlier than normal. Cotton yield in all other provinces are expected to be similar to the previous year as the overall favorable weather conditions are expected to facilitate cotton growth.

In its August report, the China Cotton Association (CCA) reduced MY15/16 production to 5.5 million tons based on a smaller planted area of 3.21 million hectares, down 24 percent from MY14/15. This forecast production is 386,000 tons lower than CCA's June data. Another major industry source, however, forecasts MY15/16 production at 5.81 million tons.

Xinjiang expected to be the major domestic cotton supplier

Xinjiang will be the country's major cotton production base. In the coming years, Xinjiang is likely to supply 80 percent of the domestic cotton production while cotton planting in the Yellow and Yangtze River regions is expected to shrink dramatically. The government's minimum price cotton purchase policy over the past three years achieved high yields at the expense of quality, in particular lower fiber length and micronaire value. In the coming years, the textile industry will have to use the state cotton reserves which have already experienced an overall decline in quality. In addition, adopting new agronomic practices, and developing varieties suitable for machine harvest will remain challenges for the future of China's cotton production.

Spinning moved west and abroad

China textile industry association data shows Xinjiang total spindles reached 7 million in 2014 with about 5 million in operation, accounting for 6 percent of the national total (88 million operating spindles in 2014). The number of spindles is much higher than the previous estimate. Some Chinese spindles have moved to Southeast Asian countries. For instance, Chinese-invested spindles in Vietnam were estimated at about 2 million in 2014.

PSD Table (in 1,000 bales and 1,000 hectares)

Cotton	2013/2014		2014/2015		2015/2016	
Market Begin Year	Aug-13		Aug-14		Aug-15	
China	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	4,700	0	4,325	0	3,500
Area Harvested	4,800	4,700	4,400	4,325	3,625	3,500
Beginning Stocks	50,361	50,361	62,707	62,707	66,882	66,777
Production	32,750	32,750	30,000	29,855	26,000	25,260
Imports	14,122	14,122	8,250	8,290	5,750	5,750
MY Imports from U.S.	0	2,935	0	2,696	0	2,000
Total Supply	97,233	97,233	100,957	100,852	98,632	97,787
Exports	26	26	75	75	50	50
Use	34,500	34,500	34,000	34,000	34,000	34,400
Loss	0	0	0	0	0	0
Total Dom. Cons.	34,500	34,500	34,000	34,000	34,000	34,500
Ending Stocks	62,707	62,707	66,882	66,777	64,582	63,337
Total Distribution	97,233	97,233	100,957	100,852	98,632	97,787
Stock to Use %	182	181.62	196.28	195.97	189.67	183.85
Yield	1,486	1,517	1,484	1,503	1,562	1,571